

Interview with Ivaylo MARKOV, Managing Partner, Thales Capital Luxembourg

## “Investors expect solid and robust projects”

**Could you briefly introduce Thales Capital Luxembourg?**

Thales Capital Luxembourg is a licensed, independent advisor with an average 20 years of experience for its members, specialized in delivering the tailored, turn-key solutions, so requested by clients, including full connectivity to the banking and investment systems and providers, both in Luxembourg and worldwide. We have an office in the Netherlands and are currently opening a new one in Mauritius, in order to meet an increasing demand from clients, keen to establish a service bridge between Europe, Africa and Asia.

**What services does your group offer?**

We offer a large range of services and act as the famous one-stop-shop whatever it may mean for each of us as professionals. Namely, fund structuring, governance, banking connectivity, fiduciary services, purchase and sale of companies, licensing and capital raising. 100% of our clientele is based outside of Luxembourg and our strategy is to act as ambassadors of the country, proposing them the Grand Duchy as an extremely business-friendly market where our clients can find any type of service they may need.

**What do you think are your strengths and what really sets you apart from your competitors?**

Thales Capital builds confident relationships, assisting its clients in meeting requirements, keeping their investors informed and meeting all the needs of their relevant stakeholders. In other words, we give our clients the support they need to be effective today, stay competitive tomorrow and create a long-term value for the future. What does really set us apart in three words is profound expertise, reliability and loyalty to customers. Then obviously our tailored pricing on a case-by-case basis helps a lot to attract the right clientele and please it at the end.

**In your opinion, what are the main assets of Luxembourg for your sector?**

That is a great transition from your previous question. Luxembourg offers three essentials, which are political stability, a large choice of service providers and a world-class regulator. All those create a comfortable business environment that is priceless for any company willing to establish a piece of its business in Europe. Then we can obviously talk about the technology, which is a precious string to Luxembourg's bow, but cannot exist without the three elements mentioned above.

**Which products that Luxembourg offers interest the foreign clientele?**

There is a list of products which interest the foreign clientele and it's the proof that all Luxembourg's authorities look in the same direction and act as one. More precisely, what our clientele searches, is the facility to setup an investment vehicle under many different forms, with the revival of the ELTIF for ex-

ample, but also master-feeder structures, securitization vehicles, quality fiduciary services, insurance products, etc...

The list may be really long, and this is what surprises our clients a lot, as we can basically offer them unexpected business horizons.

**What is your overall view of the current economic situation?**

Without a doubt we were and still are living the last three unpredictable years of our history with the Covid-19 pandemic and the war in Ukraine, at the entrance to EU. Luxembourg can be cited as an example for the management of those human and economic crisis, largely vaccinating its population, directly helping Ukraine, and welcoming its refugees. The war in Ukraine has widened global geopolitical fractures, and potential risks of more fragmented capital markets over the temporal horizon. Governments and corporate decision-makers will more focus on searching for safety and reaching for resilience, increasing the defense spending. We clearly see some economic inefficiencies and inflationary pressures which are the consequence of what happened in the last years, and the war in Ukraine is not the main reason for it. The risk of recession is looking over our shoulder, so the ecological transition may be the key for a brighter future.

**How do you assess the energy crisis in Europe and its impact on investor decisions?**

I have recently read an analysis that once a significant proportion of the public can't afford to eat out or properly socialize anymore, the situation will get much worse, and that's the evil truth. Basically, businesses will close and jobs will be lost, this is already even happening partially. Straight answer to your question is that the energy crisis is clearly beneficial for the energy companies, but a normal economic logic simply shows us that it's harmful for an economy overall, if one part does well (energy companies), and it is clearly to the detriment of others, such as consumer goods and services.

Using the energy price crisis as an example, British Petroleum reported its biggest quarterly profit for 14 years, delivering a 10% increase in its quarterly dividend. Investors do not really confirm this is truly sustainable, certainly as households face huge increase of energy bills in most EU countries. Voices are raising so that windfall profits of energy companies should help funding the energy transition. Investors are extremely sensitive on that point and suddenly ESG aura takes all its importance in a concrete situation. The world economic turmoil will speed up the process of creation of ESG investment vehicles ready to respond to investors' awakened conscience.

**What is the real and concrete impact of this crisis on the investment fund market?**

In couple of words, the energy crisis has three main impacts on the economy, such as the increase of oil prices, financial downturns and it offers the opportu-

nity to develop renewable energies. Oil reserves are decreasing, which has the effect that the oil prices rise immediately. The nature and size of policy responses and their funding will reflect the path of wholesale prices and the reliance of each country's energy mix on gas and dependence on Russian imports. Crisis would be a crucial catalyst for increased investment in climate infrastructure and renewables. While the construction costs of renewable energy are going up, they are not rising nearly as much as the costs of power generated by fossil fuel. With current disruption and profitability challenges, the demand for renewables will be even strengthened. For investors, the current uncertainty may provide opportunities across all parts of the low carbon economy value chain, and this is where they are starting to redirect their funds. Time has come.



**What is your view on recent central bank decisions?**

This was a needed act from ECB perspective. The ECB's role is to maintain the inflation at 2%, and it was failing to do this for years. Some neighbor countries of Luxembourg, like France for instance, were in situation of deflation since 2015, a deflation being a situation where there is i) no inflation, ii) tiny growth, iii) high private debt and iv) decrease of money circulation speed. Inflation in the EU is estimated at 8% in 2022, with more than 10% for several countries of the euro zone and even 20% for some of the Baltic countries. Nevertheless, the real answer to the current economic situation with rising private debt (120% of GDP in Italy, 150% in France, etc...) and the economic suffocation of the EU, will be a possible public debt cancellation. The public debt held by ECB, which is approximately EUR 2,100 billion.

**In a context of inflation and rising interest rates, what are investors waiting for today?**

Investors are always waiting to have the right answers to their constant three questions – What is the risk? What is the cost? What are the earnings? The secret to each promoter is to be 100% transparent with them playing cards on the table. In the current phase of the inflation process investors are looking for a certain resilience, by staying invested for a long period of time for the returns to compound. The speed at which the money doubles increases drastically the more time you stay invested, it's not a secret to anybody. Therefore, investors expect solid and robust PERE projects, with lower multiples maybe, but assuring them the required resilience. Investing in tangible assets is a piece of the jigsaw.

**In an article recently published in our monthly edition, you explained that we do not invest enough in the territory, for example agriculture, vines... Why?**

That is the absolute truth. It is very trendy now to talk about reforestation and buying carbon credits, which many polluting companies are fond of. Agricultural and farmlands are the basic asset, and we see its im-

portance in such stormy geopolitical times of war as the ones we are currently living. Developing a raw land to increase mainly its use and therefore its value at a later stage, is an investment in the circular economy. In our current economy, we take materials from the Earth, make products from them, and eventually throw them away as waste – the process is linear. In the circular economy, which must be our final goal to all, by contrast, we stop waste being produced in the first place and close the cycles.

**What do you offer in this area?**

What we propose here is an investment vehicle named PAN-EUROPEAN OPPORTUNITIES FUND SCA SICAV-RAIF, with its first compartment EUROPEAN VINEYARDS FUND. The latter is investing in the acquisition of vineyard estates with care for nature, the environment and preserving biodiversity, which are important business responsibilities to us. Companies that deal with us must take a precautionary approach to environmental challenges, promote greater environmental responsibility, and encourage environmentally friendly technologies. The Fund excludes companies from its screen which are deemed to have severely and systemically breached UNGC (United Nations Global Compact) principles regarding the environment. Our Fund has a recommended 10-year investment horizon with a diversified portfolio of vineyards in Spain, Portugal, Italy and France, and a certain appetite at a later stage to some new wine producing countries (Chili, Argentina, South Africa). The Fund is not only an activist for the environment protection but is also a solid response to the inflation flooding the world economy.

**How do you assess the impact of new technologies on investment fund markets?**

This is not even the future, it's already the present, and will allow us to go way further in the treatment of clients and their business needs. We were talking about robo-advisory more than ten years ago and started using it. Upgrading the investment cycle of clients, making quicker, more informed decisions with integrated risk management technology is being done. Today, new technologies make processes easier, more efficient, reduce errors, improve communication, and change how consumers see and interact with their money and the whole technical business process.

**What do you think will be the main challenges for the fund industry in 2023?**

2022 was already a challenging year, but the industry, thanks to its robustness, faced it successfully. Sanctions, energy prices rally, change in client's appetite, were only part of the events that the investment managers and fund professionals had to deal with. What would 2023 bring us? SFDR becomes mandatory on 1<sup>st</sup> January, that's a very important milestone and challenge equally. Private equity will explode bringing retail investors into the game. This sector holds more than USD 3,000 billion as dry powder, waiting to be invested, so definitely some new industries will attract an important piece of the cake. It will be a real challenge to successfully face such an interest to PE. Greenwashing defense will be another one, and we all have our responsibility in that one, because we can eradicate this dubious and unhealthy practice only if we act as one against it.

## Habituons-nous à l'inflation

Par Frédéric LEROUX, membre du Comité stratégique d'investissement de Carmignac

**La surprise persistante des marchés face à la résilience de l'inflation et la prise en compte trop partielle des facteurs sous-jacents à la hausse des prix de long terme sont les marchepieds d'une tendance durable. Cet environnement inconnu de beaucoup d'opérateurs de marchés est de nature à favoriser les gestions actives.**

Le retour de l'inflation après plus de 40 ans d'absence sème le trouble sur les marchés. Les acteurs financiers penchés sur la corbeille en 1980 ne sont plus très nombreux derrière leurs écrans aujourd'hui. Se souviendraient-ils d'ailleurs encore de la texture des années qui ont poussé les inflations américaine et européenne jusqu'à 15% ?

Pour les autres qui croient encore que le passé peut les aider à comprendre le présent et ce qui suit, point de salut en dehors des bonnes lectures. Celles-ci permettent de comprendre que les années 1965-1980 sont pleines d'enseignements car elles ont mené à l'inflation par un choc pétrolier qui survint après une longue période très calme sur le front des prix ; la même séquence qu'actuellement. Il n'est cependant pas certain que les acteurs de la Finance veuillent regarder dès aujourd'hui l'éruption des prix post-Covid comme les prémices d'un authentique cycle

inflationniste. Leurs anticipations d'inflation aux États-Unis sont en effet celles d'un retour vers 2,75% mi-2023 puis une stabilisation autour de 3% les années suivantes, à la façon d'une poussée sans lendemain telle qu'on en a connu deux ou trois au cours des quatre dernières décennies.

Pourtant, des facteurs inflationnistes structurels sont à prendre en compte : démographie (moins d'épargnants dans le monde, moins de jeunes Chinois à intégrer à tout prix dans le marché du travail), commerce (reflux du commerce mondial dans le PIB et de sa désinflation compétitive, fin possible de la baisse des prix dans le commerce en ligne), sociologie (préférence pour l'éthique au détriment de l'efficacité immédiate), ou encore transition énergétique. Ces inversions de tendances lourdes tendront à rendre l'inflation résiliente. Dès lors, quelques hausses de taux directeurs par les banques centrales permettront-elles vraiment de faire disparaître l'inflation ?

**L'exemple des États-Unis de 1980 impossible à répliquer**

Il est difficile d'imaginer aujourd'hui des décisions semblables à celles de 1980 aux États-Unis. Cette année-là, Paul Volcker, alors président de la Réserve fédérale (Fed), poussa les taux directeurs à 20% alors que l'inflation redescendait vers 10%. La même année, le président Ronald Reagan cassa la spirale prix/salaires en bannissant 11.400 contrôleurs aériens de la fonction publique au motif d'une grève illégale

lancée pour obtenir une augmentation de salaire. Enfin, il y eut un immense effort d'investissement du secteur pétrolier américain pour développer la production locale dans la foulée du choc de 1973. Impensable aujourd'hui.

**La fin du conflit en Ukraine pourrait ne pas agir rapidement sur les prix de l'énergie**

Beaucoup d'acteurs de marchés considèrent que la fin des hostilités en Ukraine mettrait rapidement un terme à la hausse des prix de l'énergie. Mais, sauf à envisager la disparition de Vladimir Poutine, rien ne dit que les anciennes sources d'approvisionnement se réouvraient rapidement. Quant aux solutions alternatives, elles ne sont pas encore prêtes. Et en parallèle, la baisse des investissements dans les énergies fossiles depuis près de dix ans produit nécessairement un effet inflationniste sur leur coût. D'ailleurs, l'existence de la crise énergétique malgré une Chine à l'arrêt témoigne de sa profondeur.

**Les hausses de salaires réels aux États-Unis vont freiner la désinflation**

La sortie de la crise du Covid a été le catalyseur de l'inflation avec une demande boostée par des soutiens budgétaires massifs aux États-Unis et une offre perturbée par l'arrêt des chaînes de production. Durant cette crise, le consommateur américain a pu se constituer une épargne excédentaire équivalant à 12% du PIB américain, de quoi le mettre en position de force

dans les négociations salariales avec les employeurs (+7% d'augmentation annuelle moyenne). Lorsque l'inflation va commencer à baisser, la hausse des salaires se réduira plus lentement. Cela va produire des gains de salaires réels qui vont soutenir la croissance mais réduire la désinflation. La récession, nécessaire pour résorber la hausse des prix, n'est donc pas pour tout de suite. Et l'actuel président de la Fed, Jerome Powell, n'a probablement pas fini de surprendre les marchés par son agressivité.

**Les marchepieds d'une inflation durable**

La surprise persistante des marchés face à la résilience de l'inflation, longtemps analysée comme «transitoire», et la prise en compte trop partielle des facteurs sous-jacents à la hausse des prix de long terme sont les marchepieds d'une tendance durable. De plus, la tolérance à la douleur étant ce qu'elle est aujourd'hui, il y a fort à parier que, dès les premiers reflux de l'inflation sous-jacente, les banquiers centraux se précipiteront pour baisser les taux. Trop tôt.

Ce retour de l'inflation nourrit le cycle économique par les actions qu'elle impose aux banques centrales. Son caractère durable est une hypothèse sérieuse qui nous conduit à une structuration de nos portefeuilles diversifiés en phase avec le cycle économique. Cet environnement inconnu de beaucoup d'opérateurs de marchés est de nature à favoriser les gestions actives, y compris obligataires contrairement aux idées reçues.